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SUBJECT: ENGAGING GERMANY ON ENERGY AND CLIMATE: CEQ
CHAIRMAN'S MEETINGS WITH GERMAN OFFICIALS AND GERMAN
PRIORITIES FOR ITS G-8 AND EU PRESIDENCIES

¶1. SUMMARY: White House Council on Environmental Quality Chairman James L. Connaughton met with senior German officials from the Environment, Economic, and Foreign Affairs Ministries as well as the Bundestag (parliament) and Chancellery to discuss environment and energy policy as Germany prepares to take over the EU and the G-8 presidencies in 2007. The meetings took place following the High Level Dialogue on Climate, Clean Energy, and Sustainable Development October 24-25 in Helsinki. Comments from interlocutors at all agencies indicate Germany approaches climate change as an integrated policy approach with a recognition of the economic potential of exporting clean technologies to India and China. Germany's goals for the EU and G-8 presidencies will include a focus on energy efficiency and promoting clean energy technologies, biodiesel, and clean coal. Interlocutors agreed with Connaughton these are areas where the U.S. and Germany can and should cooperate. German officials were eager for follow-on discussions that would lead to further cooperation. Officials for the Bundestag, Ministry of Foreign Affairs, and Chancellery explained that Berlin remains committed to the Kyoto Protocol, and to the post-2012 framework discussion.

¶2. Connaughton used his meetings to make key points on clean coal, biodiesel, energy efficiency, and international climate change negotiations. Connaughton also made a presentation on U.S. climate policy at the Friedrich Ebert Foundation, highlighting U.S. domestic and international policies that advance the development and deployment of cleaner and more efficient technologies that reduce greenhouse gas emissions, improve air quality, and lead to greater energy security. German public opinion of U.S. environmental policy is generally very critical and Connaughton did some much-needed public outreach in an exclusive interview with Die Zeit, a leading national newspaper. END SUMMARY

CLEAN COAL

¶3. On the topic of clean coal, Connaughton shared with his interlocutors U.S. plans to commercially deploy advanced coal power technology, including FutureGen, the world's first integrated sequestration and hydrogen production research power plant. He said the federal government will shortly announce approximately USD 1 billion in tax credits to encourage commercial construction of advanced clean coal plants. Connaughton encouraged Germany to pursue a parallel strategy on a similar scale to that of the U.S. so that both countries would test different clean coal technology platforms and learn the true economics of the technology. He noted China has been reluctant to invest so heavily in clean coal, but transatlantic cooperation on this issue could change things. If we are successful in lowering clean coal's capital costs and accelerating commercial deployment, he

suggested, we will be in a stronger position to urge China and other developing countries to adopt the technology.

¶4. Officials from all agencies acknowledged the U.S. and Germany, as two of the largest coal users and the leading innovators of clean coal technology, have a common interest in promoting clean coal at home and abroad and the G-8 could provide the forum to do so. Foreign Ministry Director General for Economics and Sustainable Development and G-8 Sous Sherpa Peter Ammon said clean coal will be a "centerpiece" of the German presidency and recommended forming a contact group. Johannes Kindler, Deputy Director General for Industry, Energy, and Telecommunications at the Chancellery asked Connaughton to convey Germany's interest in bilateral cooperation on clean coal to the President. Kindler said the time is ripe for U.S.- German cooperation on clean coal at the government and industrial levels and noted GE has expressed interest in cooperating with Munich-based Siemens. For its part, he said, German industry is eager to cooperate with U.S. counterparts.

¶5. Clean coal cooperation was also advanced by Ministry of Environment State Secretary Matthias Machnig, who said the U.S. and Germany should use the G-8 sherpa process to explore promoting clean coal in third countries. He cautioned that there is still serious public concern about the safety of underground carbon storage which poses a challenge to investment in clean coal technology in Germany. Machnig noted a public endorsement of the importance of clean coal by Chancellor Merkel, an East German and former Environment Minister, would send a powerful political signal in support of this technology to the international community. He suggested that if the German public knew that by 2020 all new power plants would have to be equipped for carbon capture and sequestration (CCS), innovation would take off. While acknowledging the G-8 cannot articulate such a specific goal, he said it would be very useful if G-8 leaders emphasized the importance of speeding up the commercial deployment of clean coal technology.

¶6. In Connaughton's meeting with Parliamentary State Secretary Peter Hintze at the Economic Ministry, Andreas

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Obersteller, Deputy Director General for Sustainable Energy, Efficiency, Coal, and Mining, explained clean coal is part of Germany's graduated process of increasing energy efficiency. The first step is making existing traditional power plants and new plants more efficient. He said there are already new German power plants (i.e., 2000 MW plants currently being built by RWE in North Rhine Westphalia) that are utilizing the best available technology and are more efficient than their predecessors. Building clean coal facilities is the next step after achieving greater efficiency in traditional power plants. Connaughton pointed out, and Economic Ministry interlocutors agreed, that Germany's G-8 presidency would be an opportunity to articulate to the public the role of clean coal in this process.

¶7. Speaking on behalf of the Bundestag Environment Committee, Deputy Chair and Left Party member Eva Bulling-Schroeter told Connaughton that the Bundestag also sees clean coal as an increasingly important part of Germany's approach to climate change.

ENERGY EFFICIENCY

¶8. Connaughton suggested Germany use its role as G-8 president to shift attention to a greater focus on energy efficiency. He noted energy efficiency is a good way to engage China on greenhouse gas emission reductions, given Beijing's goal of increasing efficiency by 20 percent by 2010. Connaughton explained that Asia Pacific Partnership (APP) task forces are currently identifying targets and projects for investment in energy efficiency in each industrial sector under the APP.

¶9. Interlocutors at the Chancellery and MFA emphasized

energy efficiency will be on Germany's EU and G-8 presidency agendas. The Environment Ministry's Machnig also stated it would be helpful if the U.S. made clear, in the G-8 context, its strong interest in energy efficiency and suggested identifying specific areas for cooperation.

¶10. At the Economic Ministry, Obersteller commented that Germany's approach to energy efficiency, in contrast to that of the European Commission, is market-oriented. As an example he explained Brussels is considering mandating (currently voluntary) carbon emissions reductions in the automobile sector but Germany advocates consumer labeling of vehicles so people know how much fuel a car consumes before they buy it.

BIOFUELS

¶11. Connaughton noted the U.S. is focusing on the development and deployment of second generation biofuels, including ethanol and biodiesel. He mentioned to interlocutors the U.S. has mandatory target of producing 7.5 billion gallons of biofuel by 2012. The U.S. may produce as much as 12 billion gallons, he explained, depending on market demand. On biodiesel, he noted German biodiesel standards favor rapeseed while U.S. standards favor soybeans and emphasized that harmonizing standards is essential for the development and global interoperability of biofuels and other key new energy saving/emissions cutting technologies.

¶12. The Chancellery agreed that biofuels is an area ripe for U.S.- German cooperation in the context of their upcoming EU and G-8 presidencies. Kindler suggested the U.S. and EU bolster their clean technology sectors by working to jointly set standards and efficiency criteria. In comments made before MFA State Secretary Georg Boomgaarden joined their meeting, Ammon told Connaughton he wants to see more U.S.-German cooperation on biofuels. He noted German companies, such as Daimler Chrysler, are pushing forward on second generation biofuels and biomass-to-liquid (BTL) development and emphasized the need for the U.S. and German governments to engage industries in their bilateral discussion. He also pointed out that biofuels makes sense as a fuel source for the U.S. and Germany, who both want to put surplus agricultural productions capacity to good use.

INTERNATIONAL PROCESS STILL KEY

¶13. While showing strong interest in cooperating with the U.S. on clean coal technology, energy efficiency, and biofuels, interlocutors from the MFA, Ministry of Environment, Chancellery, and Bundestag nonetheless expressed Germany's unwavering commitment to international discussions on climate change, both through the Kyoto Protocol and the discussions on a follow-on agreement.

¶14. Connaughton stressed the importance of engaging China and India on climate protection as part of a broader agenda, including energy security and environmental quality. He noted that China and India rank climate change lower than energy security and air pollution and are not organized around the goal of reducing greenhouse gas emissions. Connaughton explained that the Asia Pacific Partnership was created in part to help promote such a dialogue. He said the EU made a mistake at Montreal by assuring China and India that they would not be obligated to make emissions reductions in a post-2012 regime and stressed that the U.S. will not join an international framework in which developing countries have no commitments. Connaughton explained the U.S. supports a dialogue among all UN members within the UNFCCC but a more focused discussion among environment, economic, energy, and industry interests of the 15-20 leading emitters of carbon dioxide would be more effective in coming up with real solutions. He noted British Prime Minister Tony Blair started this kind of "leadership dialogue" on climate change at Gleneagles.

¶15. MFA State Secretary Boomgaarden's first comment in his meeting with Connaughton was that it is important to have the

U.S. "in the boat" in post-2012 discussions, along with India and China. Boomgaarden said he is optimistic clean coal and other technologies can become economically viable. He stressed the importance of the Kyoto process and the inherent value of approaching climate at the international level and of having specific goals for carbon emissions reductions. Boomgaarden acknowledged U.S. reticence to commit to a target for absolute carbon emissions reductions, but pointed out that the U.S. has targets in other areas. He said on aid to Africa, for example, Americans are comfortable with setting a number goal.

¶16. Boomgaarden, however, acknowledged the value of a smaller-scale discussion on climate among key industrialized countries. He said it was useful that UK Prime Minister Tony Blair started the G-8 dialogue on climate at Gleneagles and noted the G-8 process is an easier way to engage ministries of Economics/Energy than within the UNFCCC. He concluded by reiterating the need for a minimum binding goal such as preventing a global temperature rise of more than 2 degrees Celsius above pre-industrial levels. There are different ways to achieve such a goal, he said, but stressed "the discussion doesn't make sense without the context of binding goals." Ammon qualified Boomgaarden's remarks by commenting "it doesn't make sense for the U.S. and Germany to have a religious war" about how to approach climate when there is there is so much the two countries have common, such as interest in engaging in China, which will soon be the biggest emitter of carbon dioxide.

¶17. Members of the Bundestag from all parties similarly advocated strong support of the Kyoto process. Dr. Axel Berg, Social Democrat member of the Economic Committee, said that while he is "no great fan" of Kyoto, he does not see Kyoto commitments and support for technological innovation as mutually exclusive. Both the U.S. and Germany want to sell clean coal technology to China, he continued, and Germany wants to use the Clean Development Mechanism under the Kyoto Protocol as a mechanism to do so. Michael Kauch, Left Party member of the Environment Committee, supported Berg's comments but noted that the German public's impression of U.S. environmental policy is tainted by the U. S. refusal to discuss Kyoto.

¶18. Machnig touched on the topic of international cooperation on climate by raising the issue of adaptation. He said there needs to be a signal at the G-8 level that we take the concerns of developing countries seriously and will support their adaptation to climate change. Connaughton agreed but explained the U.S. sees adaptation as part of a broader, sustainable development agenda. Machnig insisted on the importance of signaling to the developing world that we support adaptation by putting money into the World Bank Energy Investment Framework for this cause.

¶19. This message has been cleared by CEQ.
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